

September 9, 2004

Honorable Mayor and Members of
the Hermosa Beach City Council

Regular meeting of
September 14, 2004

**MINI/BMW SITE, PROPOSED INCENTIVES TO ASSIST THE DEVELOPMENT
OF THE DEALERSHIP FOR COOPERMINI/BMW USED CARS AND SERVICE
CENTER**

Recommendation:

That the City Council direct the City Manager to prepare an agreement with South Bay Mini/BMW to share property tax and sales tax for a period of 10 years in exchange for South Bay Mini/BMW to operate a dealership with certain conditions at the present site of South Bay BMW located 2901 Pacific Coast Highway.

Background:

The BMW dealership has been a member of the Hermosa Beach community for over 30 years and through the collection of sales tax has been an important economic contributor to the City. The sales tax collected on the sale of cars in Hermosa Beach is the largest category contributor to the overall sales taxes that the City receives. BMW has been the highest volume dealer for a number of years and the loss of the sales tax generated would be significant. The City's budget this year shows a decline in sales tax expected to be received this fiscal year as a result of the expected loss of the BMW store. The proposal to open a Mini-Cooper Dealership on the BMW site offers one means to offset this loss.

The City Council received the proposal from South Bay BMW/Mini to enter into a tax sharing agreement for a period of 10 years as an incentive for the South Bay BMW/Mini to build and operate a new car dealership, used car sales and service center. The proposal, in addition, includes the vacation of a portion of 30th Street which was decided by the City Council at the August 10, 2004 meeting not to grant. Staff has continued to discuss the tax sharing agreement with South Bay BMW/Mini and has come to the conclusion that without the proposed tax sharing agreement the dealership will not stay in Hermosa Beach. As you are aware, the dealership is nearing completion of a new BMW dealership in Torrance and at first had planned for the Mini brand to be sold from that facility. The option still remains for them to relocate all of the brands and used cars to that site probably before the first of the year.

Analysis:

The Mini/used car sales will not make up for all of the business that the BMW sales generated, however it is probably the highest replacement land use that we can expect. The report prepared for the June 22, 2004 detailed the expected revenues from retail, office, hotel and auto sales. Clearly, the auto sales will generate the most revenue for the City and, even with a 50/50 split of the sales tax, is very close to the revenue that a hotel would bring in. There is not any developer interested in a hotel project at this point, at least that staff is aware of. When the property first was marketed beyond the present option holder(BMW), staff met

with the broker for the owner and explained the City's interest in a hotel for the site. It was reported to me that none of the developers working for hotels were interested as the price for the land was too high to make the deal work. The other interest in the site has been developers (I have been informed that they are the backup offer) that are interested in building a mix of retail and office on the site. These types of developments generally do not generate much revenue to the City. In fact the analysis prepared for the earlier City Council meeting shows that even with maximum retail development, expected sales tax would range from \$35,000 to \$50,000. A mixed office and retail development would probably be less because most of the site would be devoted to office use. An exclusive office project would probably generate between \$20,000 and \$30,000 and this is mainly from business license revenue and some sales and other taxes.

This brings us down to two land uses that would attempt to make up the loss of revenue from the relocation of the BMW store. A hotel and another dealership. As far as we know now there is not any interest in a hotel development. In fact the other interested party if the property is not purchased by South Bay BMW/Mini is interested in a mixed office/retail project. There is interest by South Bay BMW/Mini to stay provided they receive the tax sharing agreement. We have preliminary plans and they involve building a completely new facility. The proposal does not involve any other special consideration as they can meet all of the zoning and other related development requirements. Based on the assumptions presented above and contained in the earlier report, it is expected that the business would do \$25,000,000 per year in taxable sales. This assumption was made on a review of the information on the existing sales of used cars and the number of Minis that they would have to sell. The level of sales would generate \$250,000 per year. If split on a 50/50 basis for ten years then the City would receive \$125,000 and South Bay BMW would receive \$125,000. The City would first receive its share. Another way of expressing this is that there would be a floor to the tax sharing agreement in the event that taxable sales fell below \$25 million the City would still receive \$125,000. There is also a property tax split proposed and this actually results in an increase to the City because of the change in valuation on the sale and new construction. This works out as follows:

Total new property tax to the City is \$20,944 per year and a 50/50 split is \$10,472.
The City presently receives \$4,015 per year in property tax from this site.

The draft of an agreement is being completed by the City Attorney and will be available at the meeting. I will send out the agreement to each of you as soon as I receive it. I have also spoken with the owner of South Bay BMW and he will be attending the meeting to address the issue and the proposal that has been presented.

Respectfully submitted,

Stephen R. Burrell
City Manager